



Date: August 2, 2011

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Mike Barros, Director
Subject: Department of Community Development
CDBG Section 108 Loan Application

Executive Summary

A major component of the funding strategy for the Southside Revitalization Project is a Community Development Block Grant (CDBG) Section 108 loan to fund acquisition, site preparation and infrastructure improvements associated with new mixed-income rental and homeownership development. It is anticipated that the initial 108-funded activities will begin in late 2011 or early 2012 and therefore, an application must be submitted to the U.S. Department of Housing and Urban Development (HUD) to ensure that funding will be in place when needed.

Recommendation

The Department of Community Development recommends that City Council authorize the City Manager to submit a Section 108 loan application and amendments thereto and all understandings and assurances contained therein to the U.S. Department of Housing and Urban Development (HUD) in the amount of \$8,800,000.00, to act in connection with the application to provide such additional information as may be required, and to execute such documents as may be required in order to implement the application and issue debt obligations pursuant thereto.

Background

The initial components of the Southside Revitalization Plan include two phases of mixed-income rental development on the former Rolling Hills site by McCormack Baron Salazar (MBS). Phase I, which was awarded 2011 Low Income Housing Tax Credits (LIHTC) by the North Carolina Housing Finance Agency (NCHFA), will consist of 119 rental units and 13 live-work units. Of the 119 rental units, 80 will be restricted to households with incomes at or below 60% of the area median income with rents set at varying levels of affordability. Tentatively, the second phase will consist of 79 units, with not less than two-thirds of those units serving households at or below 60% of the area median.

Concurrent with the rental development, the Center for Community Self-Help (Self-Help) and others will begin the construction and sale of the initial 45 homeownership units on the west side of Roxboro Street. A refined phasing plan identifying the specific locations for the homebuilding program is currently being prepared.

Issues/Analysis

The Section 108 loan is guaranteed by the City's latest approved CDBG allocation and entitlement communities may borrow up to five times the annual allocation. The City currently receives \$1,764,024.00, which equates to a maximum loan amount of \$8,820,120.00.

During the time period that 108-funded activities are being carried out, the 108 program functions as a line of credit, funds are drawn down as needed. Interest only payments on the amount drawn down are required. Once all activities are completed and the final loan amount is set, principal and interest payments then become due with an amortization period of up to 20 years.

The chart on page 6 (six) of the application outlines the activities to be funded by the 108 program and a projected drawdown schedule. Since interest only payments are due during the drawdown period, the difference between the interest payment due and the projected principal and interest payment upon completion can be applied to one of the 108 activities to allow for additional contingency funds and/or to reduce the final loan amount.

In addition to a final loan amount potentially less than \$8,800,000.00 as a result of applying entitlement funds to 108-funded activities during the implementation period, the loan amount could be reduced further if some or all of the infrastructure costs associated with the second phase of rental development on the former Rolling Hills site can be absorbed into the construction budget for that phase. To be conservative however, those infrastructure costs (\$974,582.00) are included in the 108 application.

Funds are included to complete infrastructure improvements on the balance of the Rolling Hills site including a new street that will connect Piedmont Avenue with Lakewood Avenue. These improvements will create three additional "blocks" for future development.

Alternatives

There are no alternative funding sources for the activities to be funded by the 108 loan.

Financial Impacts

The repayment source is the City's annual CDBG entitlement. An amortization schedule is included in the application detailing projected principal and interest payments. Based on a total loan amount of \$8,800,000.00, the principal and interest payments would equal approximately 40% of the current year's entitlement allocation. Should the CDBG program be eliminated, the City would remain obligated to retire the debt using general funds.

SDBE Summary

Specific SDBE goals will be established for all construction elements within the Southside project.

Attachment

Section 108 Loan Application